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**IOWA UTILITIES BOARD**  
**Energy Section**

Docket No.: EAC-2011-0007  
TF-2011-0129

Utility: Interstate Power and Light  
Company

File Date: November 18, 2011

Memo Date: February 20, 2012

**TO:** The Board

**FROM:** Parveen Baig  
Jim Kellenberg

**SUBJECT:** Regional Transmission Service Rider Compliance Filing and Tariff -  
Docket Nos. EAC-2011-0007 and TF-2011-0129

**BOARD ACTION:** Needs Board order approving the filing with modifications

**I. Background**

On January 10, 2011, the Iowa Utilities Board (Board) issued its Final Decision and Order (Final Order or Final Decision) in Docket No. RPU-2010-0001, approving Interstate Power and Light Company's (IPL) request to implement a transmission cost recovery rider (Rider). The Rider was approved on a pilot basis. The Rider was designed to recover transmission costs billed by the Midwest Independent System Operator (MISO) and other transmission-related costs. The Rider has cost recovery factors applicable by customer class and became effective with customer billings on February 25, 2011. IPL has filed monthly reports detailing transmission costs and revenues that are passed through the Rider.

On November 18, 2011, IPL filed with the Board its First Year Compliance Filing and Tariff (reconciliation filing) for its Rider under EAC-2011-0007 and TF-2011-0129. The reconciliation filing is in compliance with the Board orders of January 10, 2011, and February 25, 2011, in Docket Nos. RPU-2010-0001 and TF-2011-0010. The reconciliation filing includes a proposed 2012 Rider tariff as well as 1) the calculation of the 2012 Rider factors; 2) the reconciliation of the prior year (2011) transmission expenses and corresponding Rider revenues; 3) the estimated 2012 transmission expenses; and 4) the billing determinants. IPL proposed that the 2012 cost recovery factors become effective on January 1, 2012. IPL made a supplemental filing on December 1, 2011, in response to a staff request for additional documentation for an expense number.

In the reconciliation filing, IPL included the Central Iowa Power Cooperative (CIPCO) investment true-up charges. The CIPCO investment true-up was a contested issue in the Docket No. RPU-2010-0001 proceeding that established the transmission rider. The Board order had approved the recovery of CIPCO charges (\$205,729 per year).

IPL did not include the CIPCO true-up charges in base rates when it filed final compliance rates in Docket No. RPU-2010-0001 on February 25, 2011. IPL later discovered that it omitted these costs and requested to include the CIPCO true-up charges in its Rider. Intervening parties have objected to the inclusion of these charges in the Rider. On December 9, 2011, the Board issued an Order Docketing the Filing to investigate the issue of CIPCO true-up charges and Setting Comment Period in Docket Nos. EAC-2011-0007 and TF-2011-0129. The Board's docketing order provided that IPL shall continue collections using 2011 factors until this matter is resolved.

No CIPCO true-up charges have been passed through the Rider to-date. However, IPL has included in its annual reconciliation calculations the recovery of \$205,729 per year associated with the CIPCO investment true-up. For the eight months of 2011 (March through October), IPL has included \$137,152 as the recovery portion of the CIPCO true-up. IPL also included \$205,729 in its projected 2012 transmission expenses for the CIPCO investment true-up charges in its reconciliation filing. In summary, IPL proposes to recover a total of \$342,881 (\$137,152+\$205,729) in CIPCO true-up charges in 2012.

The Large Energy Group (LEG) and the Office of Consumer Advocate (Consumer Advocate) filed comments on December 29, 2011. IPL filed reply comments on January 12, 2012.

IPL made an errata filing on February 9, 2012, of its proposed electric tariff sheet that lists its cost recovery factors for its Rider. IPL made a second errata filing on February 10, 2012, to correct a typographical error on the tariff sheet in its first errata filing. IPL filed the revised tariff sheet to reflect its acceptance of corrections proposed by Consumer Advocate to IPL's November 18, 2011 reconciliation filing. Consumer Advocate proposed a correction to IPL's calculation of the Standby Reservation Fee for 2012. Consumer Advocate's correction results in a two cent reduction for the Rider charge for the Standby rate. The cost recovery factors for the remaining customer classes were not affected. The proposed effective date for the revised tariff sheet is March 1, 2012.

#### LEG's Comments

The Board should reject IPL's attempt to recover the CIPCO transmission investment true-up charges through the Rider in its Reconciliation filing. The \$205,728.91 CIPCO charges at issue are transmission investment true-up

charges that IPL paid to CIPCO in 2009 (per page 66 of the Final Decision). These charges were not based on CIPCO transmission service; they were based on ITC Midwest transmission investments. The Board decided that these charges should be collected in base rates, per the Final Decision at page 68, and not through the Rider.<sup>1</sup> LEG attached relevant parts of IPL's April Transmission Report as Exhibit B. LEG references a note by IPL at the bottom of the last page of Exhibit B. LEG quotes the note "CIPCO transmission credit/true-up amounts have been removed per IUB order page 75." LEG also quotes that for the note "CIPCO trans. investment credit/true-up" on line 3 of the same page, a zero amount is shown through March 2011 although there was a non-zero forecast for the same item for 2011. [The last page of Exhibit B shows the line-by-line monthly transmission expenses for the Rider]. IPL had obviously represented to the Board that it was in agreement that CIPCO transmission charges would not be included in the Rider.

However, by July of 2011, IPL had changed its mind. In its July Transmission Report, (pertinent portions were attached as Exhibit C), pages 6-7, IPL stated:

Both the estimated 2010 and 2011 transmission expenses included an amount for the CIPCO transmission true-up. In the 2010 estimated expenses, \$205,728 associated with the investment true-up was included with CIPCO Network Integrated Service (NITS) expenses. For 2011 estimated expenses, the CIPCO Investment True-up is reflected on line 3 of Exhibit 8a. In Docket No.RPU-2011-0001, the Board's January 10, 2011 Order on page [75] refers to IPL's agreement regarding the referenced CIPCO expenses in which the agreement was to not adjust the RTS Rider for changes in the CIPCO investment/ true-up. In addition, the Board's order on pages 63-66 specifically discussed the CIPCO true-up costs.

The development of the 2011 RTS Rider rate included \$989,119 of estimated annual CIPCO expenses. IPL has not been tracking any of these expenditures through the rider, as a result of the Board's order on page 75, IPL should be, however, tracking an amount, annually, as referenced on page 66 of the Board's order, and pursuant to IPL's 2007 agreement with CIPCO, ITC Midwest and MISO. The correct amount is \$205,728 (based upon the 2009 test year) in annual CIPCO expenses and IPL should not be adjusting the RTS Rider for any actual monthly variances to this amount. (Emphasis added.)

Both the \$205,728 and monthly variances to the \$205,728 are to be excluded from the Rider. LEG quotes "IPL agreed, to alleviate some concern

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<sup>1</sup> Board staff is unable to locate this reference on page 68.

expressed by LEG, not to include CIPCO transmission charges in the rider” was a condition of the Board Order.

IPL provided different interpretations of the Board Decision regarding the collection of the transmission true-up charges through the Rider. LEG references its Exhibit C which shows the July transmission report. On the page known as Exhibit 3 of Exhibit C, LEG quotes the IPL statement “The CIPCO transmission investment credit/true-up amounts have been removed per IUB order, page 75.” This means that there is to be no recovery. However, on page 8b of Exhibit C, LEG quotes the IPL statement “The CIPCO transmission investment credit/true-up amounts have been fixed at 2010 levels and remain fixed consistent with RTS rate design.” This means that the recovery is \$205,728 for the costs to go through the Rider. The first of these interpretations is the only one that is in agreement with the Board directive that these charges are to be excluded from the Rider.

IPL clearly asks for full recovery of the 2009 CIPCO transmission investment true-up of \$205,728 in the Reconciliation Filing that it had previously stated was not to be recovered in the Rider and was to be removed according to the Final Decision. **LEG points out that in the Reconciliation Filing IPL stated that the \$205,728 was backed out of base rates in the final rates compliance filing. To correct this, IPL proposes to recover the \$205,728 through the Rider instead of redesigning all customer class base rates to include the \$205,728.** [Emphasis added by Board staff]

Apparently IPL did not take into account its obligations under the Final Decision when it designed its final base rates in Docket No. RPU-2010-0001. The final base rates and the Rider have been approved by the Board. IPL should not be allowed to recover the investment true-up charges either retroactively or prospectively.

#### Consumer Advocate Comments

IPL included CIPCO true-up costs of \$137,152 for 8 months of 2011 and \$205,729 for 2012 in its reconciliation filing.

In its reply brief filed in Docket No. RPU-2010-0001, IPL stated it “would not object to an RTS Rider that did not include IPL’s CIPCO transmission expenses.” (IPL Reply Brief at 34).

The Board relied on the above statement in its decision when it approved the proposed transmission rider on a pilot basis. The Board noted that “IPL agreed, to alleviate some concerns expressed by LEG, not to include CIPCO transmission charges in the rider.” *Interstate Power and Light Company*, IUB Docket No. RPU-2010-0001, Final Decision and Order at 75 (January 10, 2011).

The Board's Final Decision and Order contemplates that the CIPCO true-up costs at issue would be recovered only through base rates and not through the Rider. IPL's Rider should be rejected until the \$342,881 CIPCO costs are removed.

IPL is free to ask for rate relief consistent with the three-year rate freeze if it believes that its base rates are too low. IPL has furnished no evidence that its base rate revenue is not sufficient to cover all of its reasonably incurred costs.

#### IPL Reply Comments

#### Procedural History

The Board's Final Order included IPL's 2009 CIPCO investment true-up of \$205,729 as part of IPL's revenue requirement. This amount was originally planned to be recovered through base rates. On page 66 of the Final Order, the Board states: "*The CIPCO true-up costs paid by IPL are known and measurable and are incurred in providing electric service to IPL's customers.*" **IPL inadvertently omitted the 2009 CIPCO true-up costs when it calculated its Compliance filing of February 25, 2011.** [Emphasis added by Board staff] IPL later discovered this error. Accordingly, IPL's monthly transmission expense report for June included a proposal to begin the recovery of that amount back to the date that the Rider was implemented, as well as for future monthly transmission expense report filings. This proposal was made in lieu of base rate recovery. However, the Board deferred approval of that request in its September 12, 2011 [staff] memo (included as Exhibit A).

Recovering the charges through the Rider is less confusing for customers than revising base rates and is more efficient to implement. Just over \$205,000 will be recovered under either option. IPL will fix the amount passed through the Rider for recovery. No amount over the amount authorized for recovery will be recovered from IPL's customers.

The Board's September 12, 2011 [staff] memo in Docket No. EAC-2011-0007 indicated that the Final Order in RPU-2010-0001 was not clear as to whether IPL was allowed recovery of any costs related to the CIPCO investment true-up charges. Before any true-up costs could be recovered through the Rider, the Board requested that IPL contact LEG to gain its understanding of the Board's Final Order.

IPL contacted LEG's representative, Dr. Robert J. Latham, on October 12, 2011, to gain his understanding in compliance with the Board's memo. This correspondence, which was included as Exhibit B, shows that LEG's position is that the base amount of \$205,729 should not be recovered through the Rider. LEG referred to page 75 of the Board's Final Order.

### IPL's Response to Consumer Advocate

In its comments, Consumer Advocate stated that the inclusion of CIPCO transmission costs at issue is not consistent with the Board's Final Order. Consumer Advocate also stated that these costs should only be recovered in base rates, not through the Rider. But IPL maintains that the CIPCO Investment true-up costs of \$205,729 were included in IPL's approved revenue requirement and are representative of a level of test year costs. IPL cites Finding of Fact No. 21 of the Board's Final Order which stated "It is reasonable to allow recovery of CIPCO transmission charges." Also, IPL cites page 66 of the Final Order, where the Board approved recovery:

The CIPCO true-up costs paid by IPL are known and measurable and are incurred in providing electric service to IPL's customers. IPL's customers, although largely served by transmission formerly owned by IPL and now owned by ITC Midwest, also must use other systems such as CIPCO's to receive service, and the true-up charges paid by IPL provide benefit to IPL's electric customers.

### IPL's Response to LEG

IPL takes exceptions to certain sections of LEG's December 29, 2011, comments. LEG alleged that the CIPCO charges at issue were based upon ITC Midwest transmission investments and not on CIPCO transmission service. Also, LEG alleged that the Board decided that these charges should be collected through IPL's base rates and not through the Rider.

IPL disagrees with LEG's characterization of the Board's Final Order. IPL has not provided any context for its allegations. IPL references pages 63 - 66 of the Board's Final Order (IPL Exhibit C). These pages do not support LEG's allegations. In fact, the reverse is true. As shown on a sample CIPCO invoice on IPL's Exhibit D, there are two charges that are billed to IPL. One charge is for the Network Integrated Transmission Service and another charge is for the CIPCO Investment True-up. All of the ITC-Midwest charges would be part of the MISO transmission invoice and would not be part of the CIPCO invoice.

LEG also references page 68 of the Final Order to support its claim that the CIPCO charges at issue would only be recovered through base rates. IPL was not able to find any such reference on any page of the Final Order.

Footnote 10 on page 75 of the Board's Final Order reads, "IPL agreed, to alleviate some concerns expressed by LEG, not to include CIPCO transmission charges in the rider." IPL's pending proposal is consistent with that commitment. IPL will not be recovering any incremental CIPCO Investment true-up expenses

through the Rider. However, IPL does not want to bypass the collection of Board-approved expenses.

IPL's commitment to fix the CIPCO charges at issue at the 2009 level has already provided a benefit to IPL's customers. The 2011 year-to-date CIPCO Investment True-up charges through November have totaled over \$1.2 million. These 2011 charges have been reported in the monthly transmission reports filed in Docket No. EAC-2011-0007. The CIPCO Investment true-up amounts have been separately itemized on the actual CIPCO invoices. The benefit to customers in 2011 of this commitment was over \$1 million.

IPL has calculated the customer impact if the CIPCO Investment True-up amount is included in the Rider in its Table 1 included with its reply comments. On an annual basis, IPL calculates the impact for a customer would be: Residential - 17 cents, General Service - 47 cents, Large General Service/Bulk - \$34.24, and Lighting - 43 cents.

LEG and Consumer Advocate are focusing on the footnote at page 75 of the Board's Final Order and not recognizing the context of that footnote in the overall Final Order. A non-contextual footnote does not override the decisions that were made in the body of the Final Order. The Board has specifically authorized IPL to recover the 2009 CIPCO Transmission Investment True-up costs.

IPL's commitment to LEG was meant to alleviate concern about fluctuations in the amount of CIPCO Investment true-up being passed through an automatic adjustment clause on a dollar for dollar basis. Since the test year amount is over \$1 million less than the 2011 actuals, IPL's commitment has resulted in substantial benefit to customers. While IPL has fulfilled its commitment, it cannot reasonably forego recovery of Board-approved costs.

## **II. Legal Standards**

Docket No. RPU-2010-0001 Final Decision and Order, issued January 10, 2011:

p. 66: The CIPCO true-up costs paid by IPL are known and measurable and are incurred in providing electric service to IPL's customers. IPL's customers, although largely served by transmission formerly owned by IPL and now owned by ITC Midwest, also must use other systems such as CIPCO's to receive service, and the true-up charges paid by IPL provide benefit to IPL's electric customers.

p.75: footnote no. 10: IPL agreed, to alleviate some concerns expressed by LEG, not to include CIPCO transmission charges in the rider.

p.138: Finding of Fact 21: It is reasonable to allow recovery of CIPCO transmission charges.

### **III. Analysis**

IPL's monthly transmission reports submitted prior to the filing for the month of July 2011 included the footnote "The CIPCO transmission investment credit/true-up amounts have been removed per IUB order page 75" on the page labeled Exhibit 3. (This footnote was added for clarification). IPL then discovered that it had not been collecting the CIPCO true-up charges at issue in base rates. In its filing for the month of June 2011, submitted in July 2011, IPL included the statement on pages 6 and 7 of its filing that LEG referenced in its comments. On those pages, IPL stated that it should be collecting an annual amount of \$205,729 through the Rider. IPL further stated it should not be adjusting the Rider for any actual monthly variances to this amount. IPL proposed to begin recovering an annual amount of \$205,729 through the Rider for the CIPCO true-up expenses starting with the next month's report. The Board deferred that request.

The parties disagree over the meaning of footnote no. 10 on page 75 of the Final Decision: "IPL agreed, to alleviate some concerns expressed by LEG, not to include CIPCO transmission charges in the rider." IPL in its reply brief filed in Docket No. RPU-2010-0001, on page 34, states that CIPCO charges will not be included in the Rider, but these charges are appropriate for cost recovery (through base rates). Inclusion in base rates meant that IPL agreed to recover a fixed amount based on the test year (2009) expenses. IPL also agreed to recover these through base rates. Staff believes that this approach was reasonable since the CIPCO charge was now based on a fixed amount and the Riders are designed to recover costs that are expected to fluctuate from month-to-month.

IPL states that it inadvertently omitted the CIPCO charges at issue when it filed its compliance rates. This means that IPL did not include CIPCO charges in base rates or Rider. IPL notes that the CIPCO monthly invoices list the Transmission Investment Credit/True-up charges separately on the invoices. IPL also states that the actual Transmission Investment Credit/True-up charges for 2011 have been over \$1 million more than the \$205,729 charges at issue. IPL notes that its customers have benefitted accordingly. IPL pledges to fix the amount of CIPCO investment true-up charges going through the Rider at the 2009 test year level of \$205,729.



The Board's Final Order in Docket No. RPU-2010-0001 addresses recovery of the CIPCO charges at issue on page 66 as well as in the Finding of Fact No. 21 on page 138. The discussion of the CIPCO Transmission Charges on pages 63 – 66 of the Final Order does not specify if the CIPCO charges are to be recovered under base rates or through the Rider. However, IPL's reply brief clearly indicates that the charges are to be recovered through the base rates.

The discussion of the Transmission Cost Rider on pages 67 – 77 of the Board's Final Order does not mention the CIPCO charges at issue. Staff believes that this indicates that CIPCO charges were not meant to be recovered through the Rider.

IPL calculates that the annual charge for a typical residential customer will be negligible if the CIPCO charges at issue are flowed through the Rider.

The Board's Final Order provides that the CIPCO charges at issue should be included in the revenue requirement. IPL inadvertently did not include these CIPCO charges when it filed its final rates compliance filing and discovered when it filed its June 2011 transmission Rider recovery filing that the CIPCO charges were not included in base rates. IPL at that time proposed to recover the charges through the Rider. At this time, if the charges are to be recovered, then recovering them through the Rider is more efficient and less confusing than recovering them through redesigned base rates. Redesigning of base rates would be time-consuming and cumbersome and would not provide substantial benefits to customers. The fact that the 2011 actual CIPCO Transmission Investment Credit/True-up charges have been considerably more than the CIPCO charges at issue shows that the IPL customers have benefitted.

IPL requested to collect the CIPCO true-up charges at issue for the period of March through October of 2011 and twelve months of 2012 in its reconciliation filing. IPL reported its error in its June 2011 monthly transmission report. Staff believes that IPL bears some responsibility for its error. Accordingly, staff recommends that IPL not be allowed to collect the CIPCO true-up charges at issue for the time period before June 2011. Staff believes that IPL should be allowed to collect the 2011 CIPCO true-up charges at issue beginning with the month of June 2011 and ending with the month of October 2011, which is the last month for the 2011 reconciliation time period. IPL should be allowed to collect the CIPCO true-up charges for the twelve months of 2012.

Staff believes that IPL should refile its reconciliation, calculating new 2012 cost recovery factors, including five months of 2011 (June through October) and twelve months of 2012 for the CIPCO true-up charges at issue.

#### **IV. Recommendation**

Staff recommends directing General Counsel to draft a proposed order approving IPL's proposal under Docket Nos. EAC-2011-0007 and TF-2011-0129 and require IPL to file new cost recovery factors for 2012 consistent with this memorandum.

#### **RECOMMENDATION APPROVED**

#### **IOWA UTILITIES BOARD**

<u>/s/ Elizabeth S. Jacobs</u>	<u>2-20-12</u>
	Date
<u>/s/ Darrell Hanson</u>	<u>3-16-12</u>
	Date
<u>/s/ Swati A. Dandekar</u>	<u>3-19-12</u>
	Date

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